
FISCAL UPDATE Article

Fiscal Services Division

December 13, 2018



Ground Floor, State Capitol Building

Des Moines, Iowa 50319

515.281.3566

GENERAL FUND BUDGET UPDATE

Revised Revenue Estimates. The Revenue Estimating Conference (REC) met on December 13, 2018, and revised the General Fund revenue estimates for FY 2019 and FY 2020. The December estimate for FY 2019 of \$7.729 billion was revised downward by \$13.5 million compared to the previous October estimate; however, the estimate is still \$88.2 million (1.1%) more than the March 2018 estimate (adjusted for post-REC law changes). The March estimate was used in establishing the budget during the 2018 Legislative Session.

The December estimate for FY 2020 was lowered by \$4.5 million from the estimate set in October. The December estimate represents an increase of 1.8% (\$139.8 million) compared to the December estimate for FY 2019.

FY 2019 Budget Update. The General Fund surplus for FY 2019 is estimated to be \$275.4 million (**Table 1**). This latest estimate is \$109.2 million more than the FY 2019 surplus that was estimated at the close of the 2018 Legislative Session. Included in the FY 2019 budget estimate is an estimated increase of \$64.3 million for the Medicaid program that was not included in the original budget. In August 2018, the Department of Human Services reached an agreement with the two managed care organizations (MCOs) that manage Iowa's Medicaid Program. The agreement includes capitation rate increases totaling \$103.0 million for the MCOs in FY 2019. The increased costs will result in an estimated shortfall of \$64.3 million in Medicaid funding for FY 2019. This estimate may soon change as the Medicaid Forecasting Group is scheduled to meet December 18 to review projected costs for FY 2019 and FY 2020.

FY 2020 Budget Projection. The Legislative Services Agency (LSA) budget projection for FY 2020 has been revised to reflect the December revenue estimate as well as revised estimates for the built-in and anticipated expenditure changes for FY 2020. Based on the latest revisions, the surplus for FY 2020 is estimated to total \$554.1 million (**Table 1**). The estimate for FY 2020 is based on the following factors and assumptions:

- The FY 2020 REC revenue estimate of \$7.868 billion set on December 13, 2018. The REC estimate is based on tax laws and other revenue policies in place at the time the estimate is adopted. This estimate is included in the calculation of the FY 2019 expenditure limitation.
- A carryforward balance of \$184.7 million from the revised FY 2019 General Fund surplus after the estimated reserve fund requirements are met.
- The expenditure limitation for FY 2020 is estimated to be \$7.974 billion.
- The enacted appropriations from FY 2019, adjusted for a change in the School Aid estimate, are used as the baseline for FY 2020 appropriations.
- The LSA's estimated net built-in and anticipated expenditure changes for FY 2020 total \$30.7 million. **Chart 1** summarizes the FY 2020 built-in and anticipated expenditures. The estimated built-in and anticipated expenditures reflect the incremental increases above the baseline appropriations for FY 2019. Offsetting much of the projected increase for FY 2020 is a reduction of \$113.1 million associated with a one-time appropriation in FY 2019 to the Cash Reserve Fund. This appropriation will not be necessary in FY 2020. The built-in and anticipated expenditures are subject to change as additional information becomes available.
- The projected FY 2020 appropriations totaling \$7.504 billion include the base amount of \$7.473 billion plus the \$30.7 million in built-in and anticipated expenditure changes.

- Reversions are estimated to total \$5.0 million for FY 2020. Reversions are appropriated funds that remain unexpended at the close of the fiscal year and are deposited back in the General Fund.

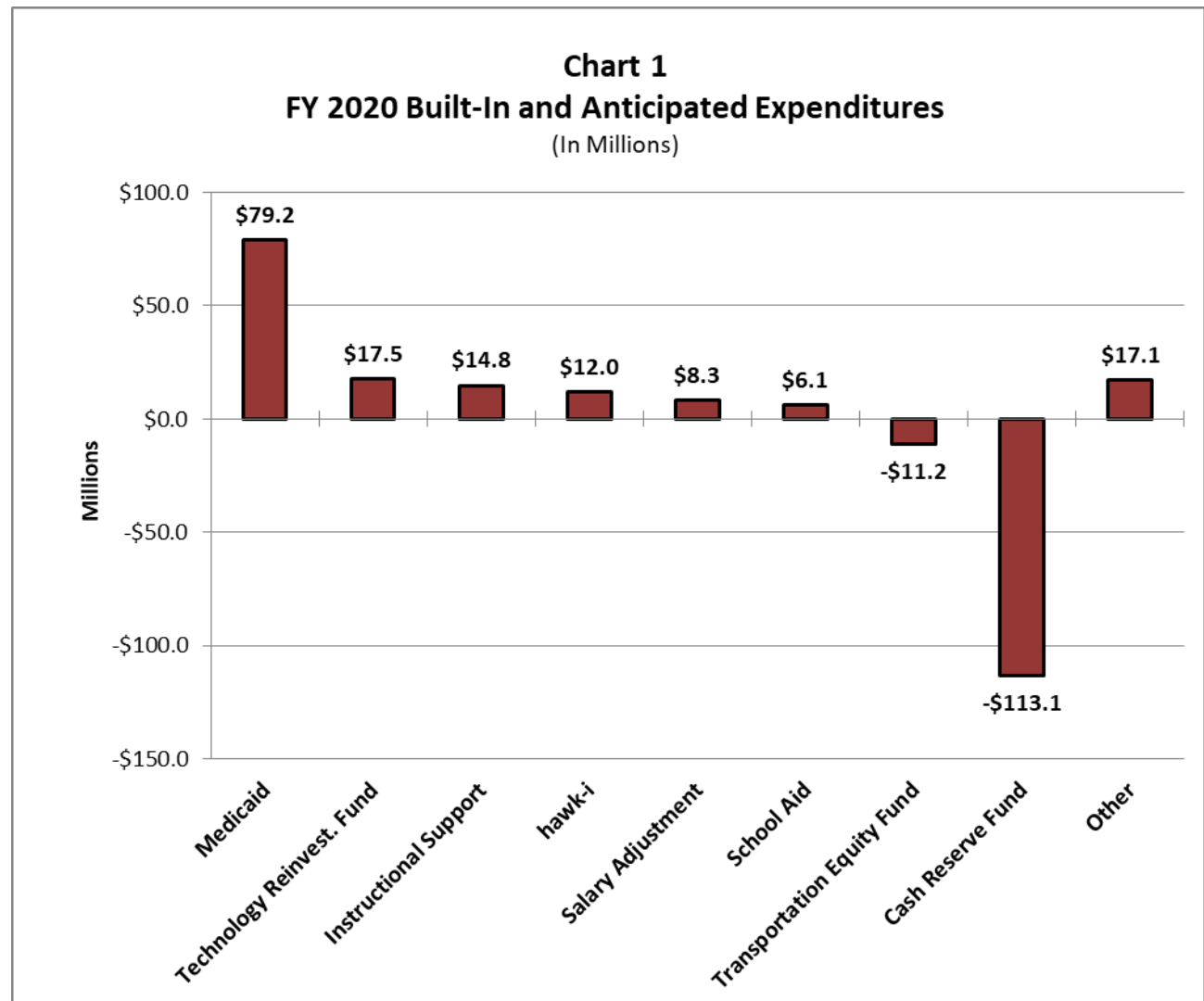
Table 1
Projected Condition of the General Fund Budget
(In Millions)

	Actual FY 2018	Estimated FY 2019	LSA Projection FY 2020
Funds Available:			
Net Receipts	\$ 7,383.9	\$ 7,728.6	\$ 7,868.4
Surplus Carryforward	0.0	79.2	184.7
Total Funds Available	<u>\$ 7,383.9</u>	<u>\$ 7,807.8</u>	<u>\$ 8,053.1</u>
Expenditure Limitation			\$ 7,974.4
Estimated Appropriations and Expenditures			
Enacted Appropriations/FY 2019 Baseline	\$ 7,268.6	\$ 7,480.2	\$ 7,473.3 ³
Adjustments to Standings	15.8	- 6.9 ¹	0.0
Supplemental/Deappropriations	- 23.3	64.3 ²	0.0
Built-in and Anticipated Increases	0.0	0.0	30.7
Total Appropriations	<u>\$ 7,261.1</u>	<u>\$ 7,537.6</u>	<u>\$ 7,504.0</u>
Reversions	- 4.5	- 5.2	- 5.0
Net Appropriations	<u>\$ 7,256.6</u>	<u>\$ 7,532.4</u>	<u>\$ 7,499.0</u>
Ending Balance – Surplus	<u>\$ 127.3</u>	<u>\$ 275.4</u>	<u>\$ 554.1</u>

¹ The FY 2019 appropriation for State Aid to Schools was adjusted by \$ -6.9 million to reflect changes in various factors that comprise the School Aid formula including enrollment, property valuations, and special education.

² The State executed new contracts with the Medicaid managed care providers that will result in an increased cost of \$103.0 million for FY 2019. To fund the increase, it is assumed that a supplemental appropriation of \$64.3 million will be needed to fully fund the Program in FY 2019.

³ The FY 2020 Baseline appropriation is equal to the FY 2019 enacted appropriations plus the FY 2019 adjustments to standings.



Reserve Funds. The balances in the State's two reserve funds (**Table 2**) are projected to be at the statutory maximum for both FY 2019 and FY 2020. For FY 2019, the combined balances are estimated at \$762.1 million and are projected to increase to \$786.8 million in FY 2020.

Table 2 State of Iowa Reserve Funds (In Millions)			
	Actual	Estimated	LSA
Cash Reserve Fund	FY 2018	FY 2019	Projection FY 2020
Funds Available			
Balance Brought Forward	\$ 422.4	\$ 442.4	\$ 571.6
General Fund Transfer from Surplus	0.0	127.3	275.4
Special General Fund Appropriation	20.0	113.1	0.0
Total Funds Available	\$ 442.4	\$ 682.8	\$ 847.0
Transfer to Economic Emergency Fund	0.0	-111.2	-256.9
Balance	\$ 442.4	\$ 571.6	\$ 590.1
<i>Maximum 7.5%</i>	<i>\$ 553.5</i>	<i>\$ 571.6</i>	<i>\$ 590.1</i>
Economic Emergency Fund			
Funds Available			
Balance Brought Forward	\$ 182.9	\$ 177.9	\$ 190.5
Excess from Cash Reserve	0.0	111.2	256.9
Executive Council – Performance of Duty	-18.0	-6.0	-6.0
Transfers to and from the General Fund	13.0	0.0	0.0
Total Funds Available	\$ 177.9	\$ 283.1	\$ 441.4
Excess Surplus	\$ 0.0	\$ -92.6	\$ -244.7
Balance	\$ 177.9	\$ 190.5	\$ 196.7
<i>Maximum 2.5%</i>	<i>\$ 184.3</i>	<i>\$ 190.5</i>	<i>\$ 196.7</i>
Distribution of Excess Surplus			
Transfer to General Fund	\$ 0.0	\$ 79.2	\$ 184.7
Transfer to Taxpayer Relief Fund	0.0	13.4	60.0
Total	\$ 0.0	\$ 92.6	\$ 244.7
Combined Reserve Fund Balances			
Cash Reserve Fund	\$ 442.4	\$ 571.6	\$ 590.1
Economic Emergency Fund	177.9	190.5	196.7
Total	\$ 620.3	\$ 762.1	\$ 786.8

Taxpayer Relief Fund. The amount that the Taxpayer Relief Fund can receive in a given fiscal year is currently limited to \$60.0 million or the difference between the actual net General Fund revenue for the preceding fiscal year and the adjusted revenue estimate used in establishing the budget for that fiscal year, whichever is less. Under current law, the \$60.0 million transfer cap will be repealed in FY 2021.

The statutory criteria associated with the transfer requirements will require \$13.4 million be transferred from the excess General Fund surplus dollars to the Taxpayer Relief Fund in FY 2019 and an estimated \$60.0 million in FY 2020 (**Table 3**). The estimated balance in the Taxpayer Relief Fund for FY 2020 is \$73.4 million. Iowa Code section [8.57E](#), as amended by [SF 2417](#), requires the moneys in the Taxpayer Relief Fund to only be used for tax relief pursuant to an appropriation by the General Assembly.

Table 3 Taxpayer Relief Fund (In Millions)			
	Actual FY 2018	Estimated FY 2019	Estimated FY 2020
Funds Available			
Balance Brought Forward	\$ 8.3	\$ 8.4	\$ 13.4
General Fund Surplus Transfer	0.0	13.4	60.0
Interest	0.1	0.0	0.0
Total Funds Available	<u>\$ 8.4</u>	<u>\$ 21.8</u>	<u>\$ 73.4</u>
Expenditures			
Transfer to the General Fund	\$ 0.0	\$ - 8.4	\$ 0.0
Reversion of Tax Credit Fund	0.0	0.0	0.0
Ending Balance	<u>\$ 8.4</u>	<u>\$ 13.4</u>	<u>\$ 73.4</u>

LSA Staff Contact: Dave Reynolds (515.281.6934) dave.reynolds@legis.iowa.gov

1022607